

AR59

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University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



ENDEAVOUR
RESOURCES INC.

ANNUAL REPORT

1995

CORPORATE PROFILE

Endeavour Resources Inc. ("Endeavour" or the "Company") is an emerging junior oil and gas company which is actively engaged in the exploration, development and the subsequent production and exploitation of petroleum and natural gas reserves. The Company currently owns interests in numerous producing properties primarily within Western Canada.

Head office of the Company is located at Suite 500, 630 - 4 Avenue S.W., Calgary, Alberta T2P 0J9.

CORPORATE HISTORY

The Company was incorporated as Fairmont Resources Inc. pursuant to the provisions of the Business Corporations Act Alberta on February 12, 1987. The Company's shares were listed and have been trading on the Alberta Stock Exchange since September 18, 1987.

On October 24, 1995 the Company changed its name to Endeavour Resources Inc. and currently trades on the Alberta Stock Exchange under the symbol "ERU".

ANNUAL MEETING

The Annual General Meeting for the shareholders of Endeavour Resources Inc. will be held on June 5, 1996 at 2:00 p.m. at the 400 Club, 710 - 4 Avenue S.W., Calgary, Alberta T2P 0K3.

PRESIDENT'S MESSAGE

In 1995, the Company changed its name from Fairmont Resources Inc. to **Endeavour Resources Inc.** to reflect management changes within the organization, and the refocussing of the Company's efforts towards establishing core areas of opportunity within Western Canada and the United States.

As part of the refocussing program, the Company's Cuban assets were sold, with full recovery of costs associated with this venture. However, the Company chose to retain a significant equity interest in the Cuban properties, reflecting management's confidence in the significant long-term potential of this project.

Endeavour also sold its interests in the Bigstone area, Alberta. Management saw little opportunity for further development in the area as Company lands had been fully developed, no additional lands in the area were available, and the Company held a minority interest in the project. Through negotiations with the Operator, the Company was able to negotiate an attractive sale price which enabled Endeavour to restructure and refinance its corporate debts and concentrate on core areas of interest to establish higher returns to the Company.

A corporate objective for 1995 was to acquire additional interest in the Company's prime area of activity, Namaka, Alberta. Gas reserves were added through a pre-purchase agreement, and Endeavour participated in three new wells within the area which were successfully drilled and completed. Endeavour will continue to seek out both reserve and land interests in the Namaka area, with further shallow and deep drilling scheduled for the latter half of 1996. Construction of the gathering and compression facilities is expected to be completed in June of 1996 with gas deliveries commencing immediately thereafter.

Gas prices experienced the usual summer lows, but firmed up as the industry stepped into 1996 with a cold winter and the anticipated opening of additional pipeline capacity to the U.S. markets. Endeavour will continue to seek out gas reserves in other high value areas in Western Canada and the U.S., and strategic alliances to enhance such opportunities in order to develop value for the Company.

Endeavour is fortunate to have a strong management team and well qualified support staff who understand the importance of maximizing shareholder value. The Company is committed to achieving this goal.

Thank you to all shareholders for your confidence and patience during this transition period. I would also like to take this opportunity to thank the management and staff of Endeavour for their continued efforts and dedication to the Company. With the solid foundation established in 1995, Endeavour Resources Inc. is well positioned for future success.

On behalf of the Board of Directors,

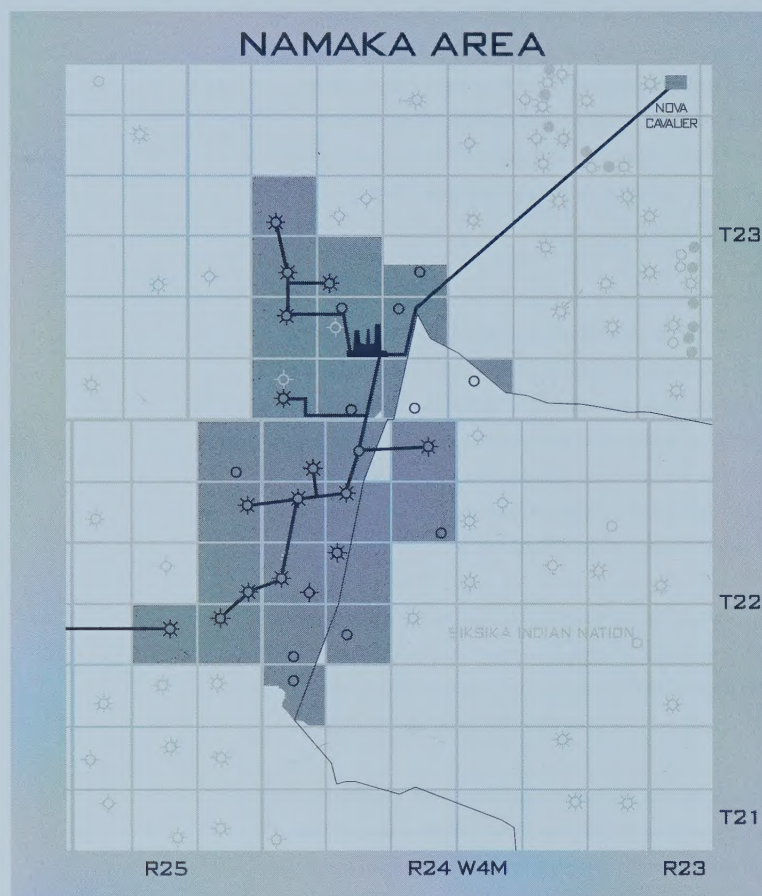


Jeffrey J. Chad
President, Endeavour Resources Inc.
March 20, 1996

**ENDEAVOUR
RESOURCES
INC.**

NAMAKA AREA

During 1995, Endeavour successfully drilled 3 wells. To date, the Company has participated in the drilling of 14 wells and the acquisition of 2 wells in the immediate area, resulting in 15 completed gas wells and 1 dry hole.

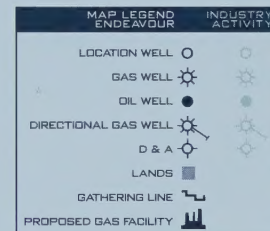


Production testing on these wells has been completed and Endeavour is participating in the construction of a gathering system and a compression facility with a design capacity of 8 Mmcf per day of gas production. Management anticipates these wells to be on stream by the summer of 1996 with net production to the Company of approximately 4 Mmcf per day, under a long term gas contract.

As well, during the year Endeavour increased its interest in the existing wells by acquiring an additional 4.3 Bcf (121,707 E3m3) of gas production from the wells drilled in this area (from related joint venture partners through a production pre-purchase agreement).

The Company has acquired to date some 126 km of seismic and is currently evaluating further drilling locations on its undrilled 5323 gross acres (2129 gross hectares). The drilling of 6 to 8 shallow and deep wells is planned for the latter half of 1996.

This area will continue to be the Company's primary focus for the upcoming year.



OTHER PROPERTIES

Endeavour currently holds petroleum and natural gas producing reserves in the Wintering Hills, Matziwin, Brooks, Beaverhill Lake and Entice areas of Alberta. Production from these properties is averaging approximately 1.8 Mmcf per day.

During the upcoming year, it is the Company's intention to increase its land holdings and reserves in the Wintering Hills area and other areas as opportunities are identified.

**ENDEAVOUR RESOURCES INC.
FINANCIAL STATEMENTS**

December 31, 1995

To the Shareholders of
Endeavour Resources Inc.

**AUDITORS'
REPORT**

We have audited the balance sheets of Endeavour Resources Inc. as at December 31, 1995 and 1994 and the statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
March 20, 1996



Chartered Accountants

**STATEMENT OF
EARNINGS
AND RETAINED
EARNINGS**

Year Ended December 31

1995

1994

REVENUE

Petroleum and natural gas
Less royalties

\$ 1,894,914
(371,570)

\$ 1,810,785
(254,736)

1,523,344

1,556,049

Interest

14,783

10,153

Rental revenue

12,733

21,613

1,550,860

1,587,815

EXPENSES

Operating
Depreciation and depletion
General and administrative
Interest on long-term debt
Real estate expenses

633,525

395,884

428,848

215,319

394,220

333,325

322,919

205,676

2,091

1,007

1,781,603

1,151,211

Earnings (loss) from operations

(230,743)

436,604

OTHER

Financing costs
Site restoration costs
Gain on sale of petroleum and natural
gas properties and equipment

(66,067)

(82,845)

(12,425)

(4,078)

2,408,051

—

2,329,559

(86,923)

Net earnings before income taxes

2,098,816

349,681

Income taxes - deferred (note 9)

(1,059,000)

—

NET EARNINGS

\$ 1,039,816

\$ 349,681

Retained earnings, beginning of year

\$ 382,789

\$ 33,108

Net earnings

1,039,816

349,681

RETAINED EARNINGS, END OF YEAR

\$ 1,422,605

\$ 382,789

EARNINGS PER SHARE

\$ 0.065

\$ 0.024

December 31

1995

1994

**BALANCE
SHEET****ASSETS**

Current

Cash	\$ 32,305	\$ 60,469
Accounts receivable	233,835	751,592
Advances to operators	543,370	416,398
Property held for resale (note 3)	218,499	5,118,664
Note receivable (note 7)	800,000	—
Due from related companies	328,637	—
Current portion of contract receivable	140,175	—

2,296,821 6,347,123

Contract receivable (note 5)	1,479,565	—
Investment (note 7)	500,000	—
Property and equipment (note 4)	3,947,485	3,498,860
	<u>\$ 8,223,871</u>	<u>\$ 9,845,983</u>

LIABILITIES

Current

Accounts payable	\$ 178,211	\$ 1,380,570
Due to related companies	—	3,210,074
Current portion of contract payable	44,570	—
Current portion of long-term debt	335,303	1,125,303

558,084 5,715,947


Contract payable (note 5)	470,510	—
Long-term debt (note 6)	200,000	420,000
Provision for site restoration costs	19,463	7,038
Deferred income taxes (note 9)	1,059,000	—

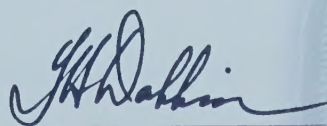
2,307,057 6,142,985

SHAREHOLDERS' EQUITY

Capital stock (note 8)	4,494,209	3,320,209
Retained earnings	1,422,605	382,789
	<u>5,916,814</u>	<u>3,702,998</u>
	<u>\$ 8,223,871</u>	<u>\$ 9,845,983</u>

On behalf of the Board

 Director

 Director

**ENDEAVOUR
RESOURCES
INC.**

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31

1995

1994

Cash derived from (applied to)

OPERATING

Net earnings	\$ 1,039,816	\$ 349,681
Depreciation and depletion	428,848	215,319
Site restoration costs	12,425	4,078
Deferred income taxes	1,059,000	—
Gain on sale of petroleum and natural gas properties and equipment	(2,408,051)	—
	132,038	569,078
Change in non-cash working capital (note 11)	(1,135,725)	(1,206,820)
	(1,003,687)	(637,742)

FINANCING

Repayment of long-term debt	(220,000)	(1,030,000)
Mortgage payable	—	(95,303)
Issuance of common shares, net of issuance costs	1,174,000	833,199
	954,000	(292,104)

INVESTMENT

Acquisition of Canadian petroleum and natural gas properties and equipment for cash	(1,175,698)	(3,618,648)
Investment	(500,000)	—
Disposal of Canadian petroleum and natural gas properties and equipment for cash	7,010,941	—
Acquisition of International petroleum and natural gas properties and equipment for cash	(769,954)	(607,387)
Disposal of International petroleum and natural gas properties	1,377,341	—
Acquisition of furniture and equipment	(11,888)	(19,943)
Property held for resale (note 3)	(4,900,164)	5,118,664
Acquisition of prepaid gas net of contract payable	(1,009,055)	—
	21,523	872,686
Net decrease in cash	(28,164)	(57,160)

CASH,

Beginning of year	60,469	117,629
End of year	\$ 32,305	\$ 60,469

1. NATURE OF OPERATIONS

The Company is engaged primarily in the exploration for, development and production of petroleum and natural gas in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment as prescribed in the Guideline of Full Cost Accounting in the Oil and Gas Industry, which was issued by the Canadian Institute of Chartered Accountants.

All costs of exploring for and developing oil and gas reserves are capitalized, including land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, production equipment costs, related overhead costs and capitalized interest related to unproven properties and major development projects. Such costs, net of proceeds from minor disposal of property, are accumulated, depleted and depreciated on a country-by-country basis by using the unit-of-production method based on estimated gross proved reserves of oil and natural gas. Oil and natural gas production and reserves are converted into equivalent units based upon estimated relative energy content.

Costs of acquiring and evaluating unproved properties and major development projects are excluded from depletion and depreciation calculations until it is determined whether or not proved reserves are attributable to the properties, the major development projects are completed, or impairment occurs.

The capitalized costs less accumulated depletion, depreciation and deferred taxes in each cost centre are limited to an amount equal to the estimated net revenue from proved reserves (based on prices and costs at the balance sheet date) less estimated future general and administrative expenses, financing costs and taxes.

Gains or losses are recognized upon the sale or disposition of properties if either proved reserves of those properties are significant in relation to the Company's total reserves or the sale or disposition is that of a major development project.

Certain of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

A provision for site restoration costs (net of expected recoveries) is made if the costs can be reasonably determined. This provision, which is based on current estimates, standards and technology, is accrued over the useful life of the resource properties using the unit-of-production method.

Depreciation

Depreciation is provided using the declining balance method of accounting at the following annual rates:

Building	5%
Office furniture and fixtures	20%

Earnings per share

The Company has utilized the weighted average method of calculating the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY HELD FOR RESALE

1995

1994

	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
<i>Canadian</i>				
Petroleum and natural gas properties and equipment	\$ —	\$ —	\$ —	\$4,286,206
<i>International</i>				
Commercial real estate property	239,770	21,271	218,499	225,071
Petroleum and natural gas properties and equipment	—	—	—	607,387
	239,770	21,271	218,499	832,458
	\$ 239,770	\$ 21,271	\$ 218,499	\$5,118,664

Pursuant to a formal disposal plan adopted by the Company for 1995, certain Canadian and International petroleum and natural gas properties and equipment as well as the commercial real estate property, were reclassified as current assets. In accordance with this plan, all of the properties have been disposed of except for the remaining commercial real estate property. It is the Company's intention to complete this plan and dispose of the remaining property during the upcoming year.

4. PROPERTY AND EQUIPMENT

1995

1994

	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
<i>Canadian</i>				
Petroleum and natural gas properties and equipment	\$4,408,404	\$ 489,480	\$3,918,924	\$3,475,047
Office furniture and fixtures	42,079	13,518	28,561	23,813
	\$4,450,483	\$ 502,998	\$3,947,485	\$3,498,860

During the year the Company capitalized overhead expenditures relating to exploration and development activities in the amount of \$117,880 (1994 - \$201,101).

5. CONTRACT RECEIVABLE AND PAYABLE

NOTES TO THE FINANCIAL STATEMENTS

	Contract Receivable	Contract Payable
Contract amounts	\$ 1,619,740	\$ 515,080
Less current portion	<u>140,175</u>	<u>44,570</u>
	<u>\$ 1,479,565</u>	<u>\$ 470,510</u>

On October 1, 1995, the Company entered into a Production Pre-Purchase Agreement with related private companies, controlled by directors of the Company, to acquire 121,707 E3m3 (4.3 Bcf) of gas production from the wells drilled in the Namaka Area, Alberta. Total consideration paid for the purchase was \$1,619,740 of which \$1,104,660 was paid on closing with the balance of \$515,080 being paid prorata upon delivery of the gas.

6. LONG-TERM DEBT

	1995	1994
Production loan, bearing interest at prime plus 1.5%, repayable in monthly principal payments of \$20,000 and is secured by various petroleum and natural gas leases.	\$ 440,000	\$ 1,450,000
Mortgage payable, 16% due June 17, 1996 payable in monthly interest instalments only of \$1,000 U.S., secured by the commercial real estate property.	95,303	95,303
	535,303	1,545,303
Less current portion	(335,303)	(1,125,303)
	<u>\$ 200,000</u>	<u>\$ 420,000</u>

The principal payments due on the production loan over the next two years are as follows:

1996	\$ 240,000
1997	<u>200,000</u>
	<u>\$ 440,000</u>

NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENT

	1995	1994
2,000,000 Common shares of Solstice Natural Resource Corp.	\$ 500,000	\$ —

On October 17, 1995 the Company sold all of its Cuban oil and gas interests for a consideration of \$1,300,000, which was paid by the receipt of an \$800,000 promissory note bearing interest at 12% per annum and 2,000,000 common shares of Solstice at \$0.25 each.

The Company waived interest on the promissory note for the period up to December 31, 1995 in lieu of being reimbursed \$77,341 for the remaining historical costs, thereby recovering all costs associated with this project.

8. CAPITAL STOCK

The Company was incorporated on February 12, 1987 under the Business Corporations Act (Alberta) with the following capital:

	1995	1994
Authorized		
Unlimited number of common shares		
Issued		
19,434,538 (1994 - 15,134,538) common shares	\$ 4,523,921	\$ 3,344,921
Less issuance costs	(29,712)	(24,912)
	<u>\$ 4,494,209</u>	<u>\$ 3,320,209</u>

a) During the year

- i) The Company issued 300,000 shares by way of a private placement at \$0.33 per share to senior officers and key personnel and a director for past services rendered with warrants to purchase an additional 300,000 shares at \$0.33 per share expiring October 11, 1996.
- ii) The Company issued 4,000,000 shares by way of a private placement at \$0.27 per share for a total consideration of \$1,080,000 with warrants to purchase an additional 4,000,000 shares at \$0.36 per share expiring October 16, 1996.
- b) At December 31, 1995 there are unexercised warrants to purchase a total of 5,300,000 common shares at varying prices for a total cash consideration of \$2,539,000. These warrants expire on various dates from October 11, 1996 to December 31, 1996.
- c) At December 31, 1995 there are outstanding stock options for directors, senior officers and key personnel of 306,000 shares at varying prices expiring on various dates from January 7, 1996 to September 16, 1996.

The effect of issuance of the outstanding stock options and warrants are all anti-dilutive.

9. INCOME TAXES

	1995	1994
Expected income tax expense of 44%	\$ 923,480	\$ 153,860
Non-deductible crown payments	78,711	82,749
Royalty tax credit included in income	(33,897)	(61,145)
Recovery of capital costs previously expensed	267,250	(254,299)
Resource allowance	(75,738)	(83,079)
Other	(100,806)	161,914
	<u>\$ 1,059,000</u>	<u>\$ —</u>
Current	\$ —	\$ —
Deferred	<u>1,059,000</u>	<u>—</u>
	<u>\$ 1,059,000</u>	<u>\$ —</u>

NOTES TO THE FINANCIAL STATEMENTS

Deferred income tax of \$1,059,000 arises as a result of the net book value of the petroleum and natural gas properties and equipment exceeding the undepreciated capital cost for tax purposes.

The Company has \$645,176 of available loss carry forwards for income tax purposes which may be used to reduce future taxable income. These losses expire in the year 2001.

The Company has available the following costs which may be deducted in the prescribed manner against future taxable income:

	\$	Rate
Undepreciated capital costs		
Class 3	125,289	5%
Class 8	15,715	20%
Class 10	10,642	30%
Class 12	1,117	100%
Class 41	440,906	25%
Class 43	307,411	30%

10. RELATED PARTY TRANSACTIONS

- The Company contracts services from Prospect Oil & Gas Management Ltd., a company related by common management and controlled by a director of the Company, for general and administrative, land, development and exploration services for a monthly fee of \$20,000.
- On October 1, 1995 the Company entered into a Production Pre-Purchase Agreement with related parties as further outlined in note 5.

**NOTES TO THE
FINANCIAL
STATEMENTS**

11. CHANGE IN NON-CASH WORKING CAPITAL

	1995	1994
Accounts receivable	\$ 517,757	\$ (436,130)
Advances to operators	(126,972)	(296,634)
Due from related companies	(328,637)	—
Note receivable	(800,000)	—
Current portion of contract receivable	(140,175)	—
Properties held for resale	4,900,165	(5,118,664)
Accounts payable	(1,202,359)	859,231
Due to related companies	(3,210,074)	3,210,074
Current portion of long-term debt	(790,000)	575,303
Current portion of contract payable	44,570	—
	<u><u>\$ (1,135,725)</u></u>	<u><u>\$ (1,206,820)</u></u>

12. NAME CHANGE

On October 24, 1995 the Company changed its name to Endeavour Resources Inc. from Fairmont Resources Inc. On January 8, 1996 regulatory approval was received.

DIRECTORS

Jeffrey J. Chad
President
Endeavour Resources Inc.

T. Hugh Dobbin
Vice President - Land
Endeavour Resources Inc.

R. Charles Allen
Executive Vice President
Endeavour Resources Inc.

Allan J. Kent
Chief Financial Officer
Endeavour Resources Inc.

Phillip A. Peterson
Businessman

Robert Kolstad
Businessman

OFFICERS AND KEY PERSONNEL

Jeffrey J. Chad, L.L.B., PEng
President

T. Hugh Dobbin, B.Econ.
Vice President - Land

R. Charles Allen, L.L.B.
Executive Vice President

Allan J. Kent, B.Math
Chief Financial Officer

William G. Blake, PEng
Geological Engineer

Brad N. Hollingsworth, C.G.A.
Manager of Corporate Affairs

Carla D. Driedger
Corporate Secretary

Janice K. Berube, B.Sc.
Controller

Brent R. McClocklin
Assistant Controller

BANK

Canadian Western Bank
441 - 5 Avenue S.W.
Calgary, Alberta T2P 2V1

REGISTRAR AND TRANSFER AGENT

The R-M Trust Company
600, 333 - 7 Avenue S.W.
Calgary, Alberta T2P 2Z1

SOLICITORS

Gregory R. Harris
Suite 500, 630 - 4 Avenue S.W.
Calgary, Alberta T2P 0J9

Burstall Ward
1800, 800 - 5 Avenue S.W.
Calgary, Alberta T2P 3T6

AUDITORS

Doane Raymond
Suite 1900, 500 - 4 Avenue S.W.
Calgary, Alberta T2P 2V6

EXCHANGE LISTING

The Alberta Stock Exchange
Stock Symbol: ERU

EXECUTIVE OFFICES

Suite 500, 630 - 4 Avenue S.W.
Calgary, Alberta T2P 0J9

Phone: (403) 777-9200

Fax: (403) 777-9199

ABBREVIATIONS

Bbbls	-barrels
Bbbls/d	-barrels per day
BOPD	-barrels of oil per day
BOE	-barrels of oil equivalent (1 Bbl = 6 mcf)
BOEPD	-barrels of oil equivalent per day
mbbbls	-thousands of barrels
mbbbls/d	-thousands of barrels per day
mcf	-thousand cubic feet
mcf/d	-thousand cubic feet per day
mcfe/d	-thousand cubic feet equivalent per day
D & A	-Drilled and Abandoned
mmcf	-million cubic feet
mmcf/d	-million cubic feet per day
mBOE	-thousand barrels of oil equivalent
API	-American Petroleum Institute
ARTC	-Alberta Royalty Tax Credit

METRIC CONVERSION TABLE

To convert from	To:	Multiply by:
Thousand cubic feet (mcf) gas	Thousand cubic meters (E3m3)	0.028174
Barrels (Bbbls) oil	Cubic meters (m3)	0.158910
Miles	Kilometers (km)	1.609000
Acres	Hectares (ha)	0.405000

Produced by Bev Dennis & Carla Driedger

Designed by Robin Albright, Two Birds, One Stone Design

Printed in Canada by Quebecor Printing, Calgary

**ENDEAVOUR
RESOURCES
INC.**



ENDEAVOUR
RESOURCES INC.



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